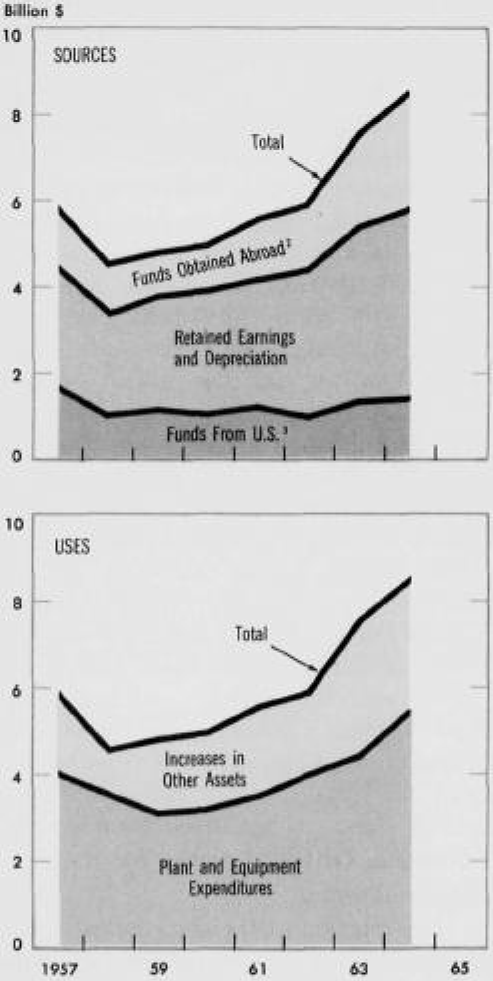
by SAMUEL PIZER and FREDERICK CUTLER

Financing and Sales of Foreign Affiliates of U.S. Firms

THIS article presents and examines the latest annual tabulations of the statistics on sources and uses of funds of foreign affiliates of U.S. companies in the manufacturing, mining, and petroleum industries, and gives data on the sales of the manufacturing and mining affiliates. These data broaden the information on the foreign operations of U.S. industry that appeared in the September SURVEY. In that article, data on net capital outflows, earnings, income and royalty remittances, and book values were presented on a basis that ties in closely with the balance of payments accounts. Data given in this article on sources and uses of funds have a different focus; the overall operations of the foreign affiliates rather than their relationship with their U.S. parent company are taken into account. There are also certain differences in the accounting procedures and the coverages of the group of reporting companies. Some reconciliations of the two sets of data are given in the statistical note on page 24. The September article also contained a full discussion of the plant and equipment expenditures of the foreign affiliates; some of those data are repeated in this article to round out the tabulations of sources and uses of funds.

CHART 9

Sources and Uses of Funds of Foreign Affiliates of U.S. Companies[1]



1.—Includes only foreign affiliates in the mining, petroleum, and manufacturing industries. Total sources and uses are after deducting income paid out.
2.—Includes some amounts obtained from foreign affiliates of the U.S. parents.
3.—Funds from the U.S. do not include funds moving through foreign financial or trading affiliates.

U.S. Department of Commerce, Office of Business Economics 65-11-9

Financing Foreign Affiliates

During 1964, further large gains in the scope of operations of foreign affiliates of U.S. firms were accompanied by sizable increases in the amount of financing required. Total financing advanced by $1.5 billion to $11.9 billion. Income distributions rose by $0.5 billion to $3.3 billion, so that after distributions of income, affiliates utilized $8.6 billion, nearly $1.0 billion more than in 1963 (table 1).

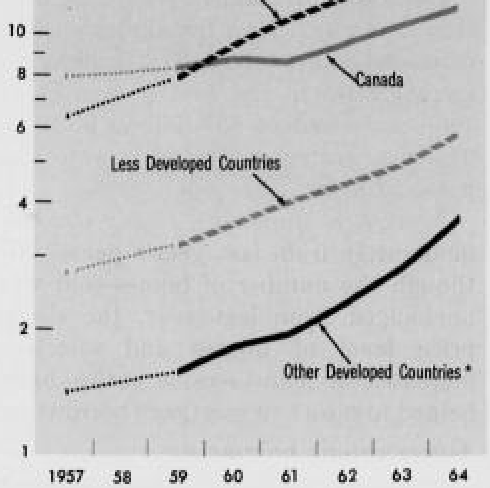
Less than $100 million of the increase came from U.S. sources (including both parent companies and other creditors). The major increases were in financing from external sources abroad ($0.6 billion) and rising depreciation charges ($0.3 billion). Retained earnings changed very little in the aggregate.

Funds from the United States

In 1964, about $1.5 billion or only 17 percent of the funds used by the affiliates in the three major industries (after income distributions) came from the United States, somewhat less than the proportion in the preceding few years. The proportion for manufacturing affiliates was even less—14 percent. These figures on U.S. financing are lower than the capital outflows shown

CHART 10

Total Sales by Foreign Manufacturing Affiliates, by Major Areas



* Includes Australia, New Zealand, Japan and Union of South Africa

U.S. Department of Commerce, Office of Business Economics 65-11-10 in the balance of payments accounts. The figures in this article do not include $350 million spent by parent companies in 1964 to buy out existing companies or minority interests, because the amount so spent is not part of the cash flow of the foreign affiliates, and they do not count retained branch profits as part of the U.S. capital flow, as is done in compiling the balance of payments accounts. (See table, page 24.)

U.S. financing of affiliates rose significantly in 1964 only for manufacturing and petroleum affiliates in Europe and "other" areas, which comprise both developed and less developed countries in Asia and Africa. In some of these industries and areas, larger plant and equipment expenditures by affiliates appeared to be the principal cause for the augmented outflow of U.S. funds. However, there were other instances, notably manufacturing in Canada, where rising plant and equipment expenditures by affiliates were financed without significantly larger capital outflows from the United States. The highest ratio of U.S. funds to plant and equipment expenditures in the 1962–64 period occurred in petroleum affiliates in the Eastern hemisphere.

Internal financing

Funds generated by the affiliates themselves—retained earnings plus depreciation charged against income—account for more than half of all the financial resources used. In 1964, they totaled $4.4 billion. The proportion provided by these sources, 51 percent, was a little lower than in the preceding years, even though the absolute amount of internal financing continued to grow.

There has been a tendency over the years for internal financing to expand roughly in line with plant and equipment expenditures—by far the largest

Table 1.—Sources and Uses of Funds of Direct Foreign Investments, by Area and Selected Industry, 1962–64

(Millions of dollars)

SOURCES OF FUNDS

Area and industry	Total sources			Net income			Funds from United States			Funds obtained abroad [1]			Depreciation and depletion		
	1962 r	1963 r	1964	1962	1963	1964	1962	1963	1964	1962	1963	1964	1962	1963	1964
All areas, total	8,806	10,397	11,852	3,577	4,282	4,772	1,421	1,335	1,456	1,546	2,152	2,677	2,262	2,628	2,947
Mining and smelting	906	875	1,044	494	493	970	98	41	−41	107	102	140	207	239	257
Petroleum	3,765	4,042	4,452	1,824	1,953	1,980	340	789	735	506	777	598	1,095	1,123	1,139
Manufacturing	4,135	4,880	6,350	1,550	1,516	2,113	623	663	762	933	1,273	1,030	1,000	1,228	1,461
Canada, total	2,104	2,333	2,587	906	1,065	1,244	291	193	126	290	332	423	680	759	784
Mining and smelting	389	347	490	179	187	318	95	−24	14	16	70	51	100	114	116
Petroleum	670	748	618	199	245	269	77	145	38	84	100	119	310	250	202
Manufacturing	1,147	1,248	1,440	427	633	687	20	68	74	231	183	253	370	393	446
Latin America, total [2]	1,801	1,909	2,243	1,016	989	1,123	−21	298	20	225	146	498	581	577	608
Mining and smelting	329	304	337	248	234	278	−28	14	−72	31	15	33	80	101	98
Petroleum	864	886	858	667	545	560	−147	34	−63	44	−44	32	300	361	330
Manufacturing	618	659	1,040	203	281	280	154	158	155	150	175	425	111	125	180
Europe, total	2,640	3,304	3,843	679	802	661	567	677	765	698	1,111	1,187	696	810	930
Mining and smelting	9	12	10	5	4	3	3	7	2	*	−1	*	1	2	5
Petroleum	747	1,068	943	74	69	5	255	391	380	198	431	306	220	237	258
Manufacturing	1,784	2,220	2,860	600	729	670	299	230	363	410	681	862	475	571	736
Other areas, total	2,369	2,880	3,282	1,277	1,428	1,624	324	418	545	333	664	597	435	444	585
Mining and smelting	179	152	198	64	68	60	28	44	16	61	18	45	26	22	38
Petroleum	1,504	1,945	2,033	884	1,094	1,134	156	276	350	190	290	142	375	285	367
Manufacturing	686	753	1,020	329	263	290	101	98	188	162	255	390	104	137	190

USES OF FUNDS

Area and industry	Total uses			Property, plant, and equipment			Inventories			Receivables			Other assets [3]			Income paid out		
	1962 r	1963 r	1964	1962	1963	1964	1962	1963	1964	1962	1963	1964	1962	1963	1964	1962	1963	1964
All areas, total	8,806	10,397	11,852	4,108	4,636	6,463	456	744	1,240	740	1,216	1,084	630	1,134	738	2,764	2,741	3,389
Mining and smelting	906	875	1,044	488	398	420	46	−3	6	42	46	72	88	81	182	322	334	394
Petroleum	3,765	4,042	4,452	1,028	1,539	2,060	54	119	101	296	439	233	231	496	79	1,560	1,467	1,973
Manufacturing	4,135	4,880	6,350	2,092	2,261	2,968	356	628	1,133	402	734	791	260	557	507	675	710	942
Canada, total	2,104	2,333	2,587	1,064	1,166	1,374	215	122	236	175	293	144	263	497	181	383	411	600
Mining and smelting	389	347	490	245	194	220	20	−15	−20	*	19	39	30	60	98	93	85	164
Petroleum	670	748	618	300	376	385	5	34	5	40	69	40	72	187	30	148	115	168
Manufacturing	1,147	1,248	1,440	466	536	769	190	110	240	180	216	76	110	180	72	283	208	278
Latin America, total [2]	1,801	1,909	2,241	720	724	858	75	235	151	90	168	310	180	92	180	736	689	722
Mining and smelting	329	304	337	95	109	130	5	5	9	21	10	10	34	16	22	170	224	170
Petroleum	864	886	868	359	357	327	−25	15	−13	5	10	10	60	1	14	475	453	450
Manufacturing	618	659	1,040	280	300	402	95	115	165	60	88	230	60	75	124	60	73	96
Europe, total	2,640	3,304	3,850	1,522	1,754	1,939	252	242	567	318	494	394	89	307	480	458	481	513
Mining and smelting	9	12	10	4	5	8	*	−1	1	2	1	2	−2	*	*	5	7	4
Petroleum	747	1,068	943	404	642	643	49	60	65	76	145	30	60	165	150	63	66	56
Manufacturing	1,784	2,220	2,860	1,021	1,107	1,298	203	233	481	150	350	362	22	152	280	385	328	454
Other areas, total	2,369	2,880	3,251	863	935	1,301	113	145	282	241	331	236	71	330	−11	1,071	1,088	1,471
Mining and smelting	179	152	198	94	66	71	30	5	16	15	15	21	*	6	24	50	36	65
Petroleum	1,504	1,945	2,033	494	505	711	25	20	64	170	225	83	29	175	−106	875	968	1,300
Manufacturing	686	753	1,020	274	301	410	68	120	202	56	81	124	42	156	60	140	101	116

* Less than $500,000. r revised.
[1] Includes miscellaneous sources.
[2] Includes "other Western Hemisphere."
[3] Includes miscellaneous uses.

use of funds. However, the tie-in is flexible in the short run and changes quickly as circumstances change. In 1963, for instance, internal flows of funds, especially retained earnings of foreign manufacturing affiliates, rose much more rapidly than plant and equipment expenditures in the same year. In 1964, however, the increase in internal financing fell far short of the stepup in plant and equipment expenditures for manufacturing affiliates, as the result of an extraordinary rise in the rate of fixed investment relative to internal financing. For petroleum affiliates in 1964 there was a falling off in internal financing caused by declining earnings, while fixed investment continued to increase gradually. Manufacturing companies apparently closed the gap largely by drawing funds from the United States; petroleum companies cut back sharply on the expansion of current and other assets held by foreign affiliates.

External foreign financing

The third major stream of funds available to foreign affiliates is borrowing or equity financing in foreign markets. Such external financing abroad has been steadily growing in importance, and it provided $2.7 billion or 32 percent of total financing (after income distributions) in 1964. Some detail of this financing is given in table 2.

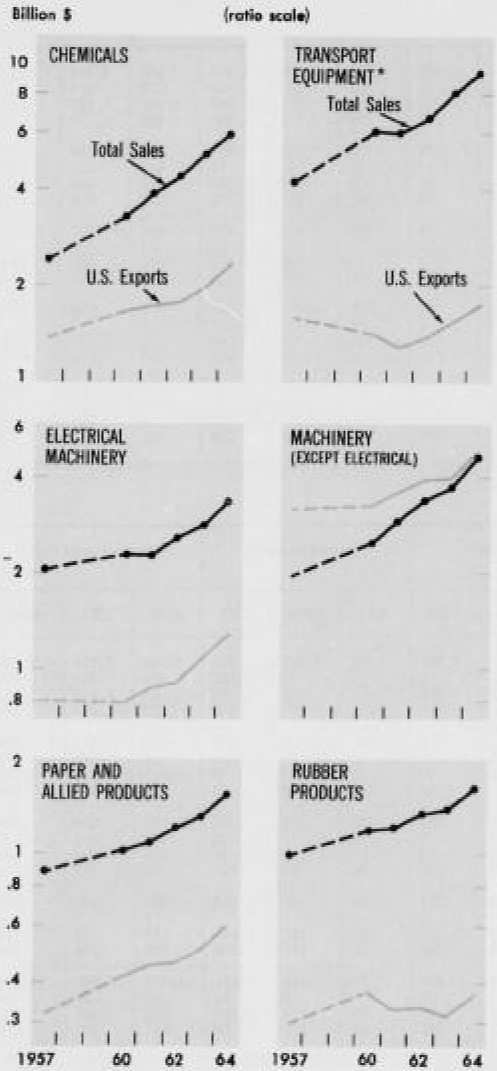
An outstanding feature of the 1964 financing was the intensified use of various types of foreign external funds by manufacturing affiliates, especially in Latin America and Europe. Changes in the amounts of external foreign financing seem to correspond fairly closely with changes in the accumulation of inventories and accounts receivable of the foreign affiliates, and probably reflect a general practice of matching current assets and liabilities within the same country, and in the same currency, as far as possible. Thus, the very large increase in external financing by Latin American manufacturing affiliates in 1964 took place in those affiliates where there were corresponding advances in the rate of increase in inventories and accounts receivable. A similar development is apparent for manufacturing affiliates in Europe and "other" areas.

An important part of the current voluntary program designed to increase the contribution of industrial companies to the balance of payments is the effort to use more foreign funds in the financing of foreign affiliates. It is clear from table 2 that the companies were making intensive use of such financing prior to the program, which was announced in February. However, the available data do not show long-term debt financing abroad separately from the short-term financing received from suppliers or in the form of accrued tax and other current liabilities. For this reason, it will not be possible to measure the increase in long-term debt financing abroad, which is receiving the greatest emphasis under the voluntary program.

The total amount of financing required in 1965 for affiliates in the three industries covered in these tabulations is almost certain to be considerably higher than the $8.6 billion used last year. Projected plant and equipment expenditures for 1965 were up by $1.3 billion over 1964; even if the original investment plans are substantially altered in accordance with the balance of payments program, a considerable increase is likely to remain. In addition, the normal growth in working capital

CHART 11

Total Sales by Foreign Manufacturing Affiliates Compared With U.S. Exports, by Major Manufacturing Industries

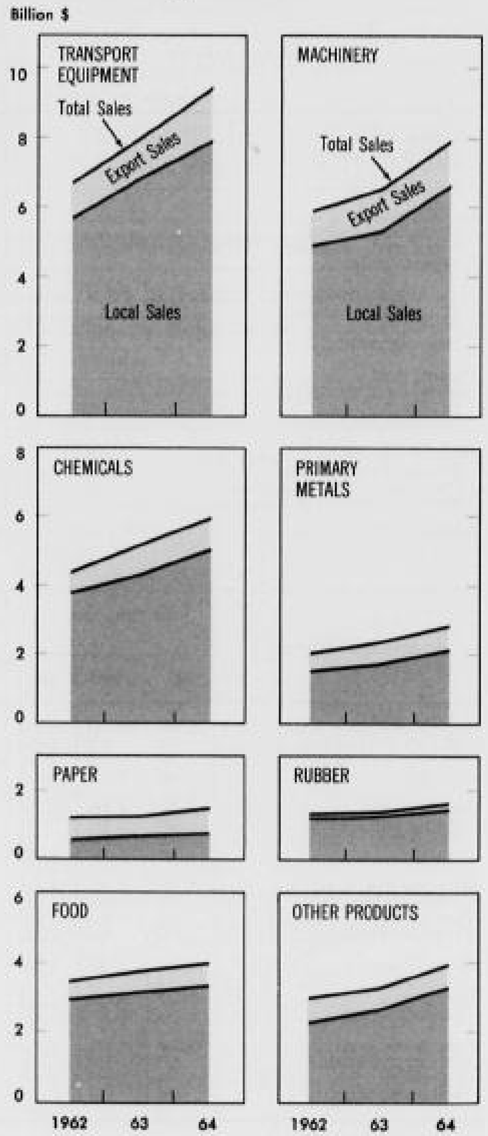


*Excludes Civilian Aircraft.

U.S. Department of Commerce, Office of Business Economics 65-11-11

CHART 12

Local and Export Sales by Foreign Manufacturing Affiliates



U.S. Department of Commerce, Office of Business Economics 65-11-12 would perhaps amount to $0.4 billion. On the other hand, the normal growth in internally generated funds of the affiliates would be roughly $0.5 billion. As a crude approximation, this would leave perhaps $1.0 billion or more of additional financing in 1965 to be derived from external sources, either U.S. or foreign. Financing from foreign sources has grown very rapidly, rising by $0.6 billion in 1963 and again in 1964. An even larger increase will be necessary in 1965 if foreign sources are to supply a greater share of the estimated amount of funds required by the affiliates and if the rise in U.S.-source financing is to be minimized.

Uses of funds

As noted above, expenditures for plant and equipment are the largest use of funds by foreign affiliates, accounting for 64 percent of total uses in 1964. Current and prospective developments in these expenditures were discussed in the September *Survey*.

A rising share of total financing has been needed for mounting accumulations of inventories and accounts receivable. Inventories of foreign affiliates grew by $1.4 billion in 1964, about $½ billion more than in 1963. Nearly all the accumulation was by manufacturing affiliates, and was spread over a broad range of countries and commodities. The principal factor involved appears to have been the acceleration of sales by the manufacturing affiliates, but in all areas, the buildup of inventories was considerably more than proportional to the increase in current sales.

Foreign affiliates added $1.1 billion to their accounts receivable in 1964, somewhat less, in the aggregate, than the rise in 1963. There was considerable variation in behavior among the different areas and industries. Receivables of manufacturing affiliates showed the largest rise—$0.8 billion—which included a major increase in Latin America. Petroleum affiliates reduced the rate of growth of receivables in most areas from the comparatively high rate of 1963.

Sales by Foreign Plants

THE value of sales of foreign manufacturing affiliates of U.S. companies soared to $37.3 billion in 1964, a rise of 17 percent for the year. This was the most rapid rate of increase since the collection of these data began in 1957. It reflects the combined effect of strong growth in demand in major markets and the acceleration of growth in capacity through plant construction (and some acquisitions of existing foreign firms) by U.S. companies. Since plant construction has proceeded at an even higher rate in 1964 and 1965 than in prior years, and since most major markets continue to show strength, a further large gain in sales seems likely for 1965.

Area and industry composition

Sales of European manufacturing affiliates, which are considerably larger than those of affiliates in any other area, registered a major gain of $2.5 billion in 1964. As table 4 shows, nearly $1.0 billion of the increase was in the United Kingdom, and over $0.5 billion in Germany. Among the industry groups in Europe, particularly large gains in sales were reported for machinery and transportation equipment.

Canadian affiliates also had record sales gains in 1964, consistent with generally rising industrial production in Canada. Sales gains in other developed countries, notably in Australia, were also well above trends since 1957. This pattern also carried through to many of the developing countries, such as Argentina and Mexico, but sales declined in Brazil and grew relatively slowly in a number of other countries.

Nearly all the manufacturing industries shown in table 3 reported record increases in sales in 1964. As the plant expansions of 1964 and 1965 come into production, in an environment of generally rising demand, sales of the foreign plants are likely to continue their rapid rise.

Since 1957, aggregate sales of the affiliates have more than doubled—from $18.3 billion to $37.3 billion in 1964. Sales in some manufacturing industries—chemicals, nonelectrical machinery, and transportation equipment—have expanded even more rapidly during this period, and it is significant that

Table 2.—Financing of Affiliates from External Sources Abroad, Area and Type of Financing by Industry, 1962–64

(Millions of dollars)

Area and type of financing	All industries, total			Mining and smelting			Petroleum			Manufacturing		
	1962	1963	1964	1962	1963	1964	1962	1963	1964	1962	1963	1964
All areas, total	1,546	2,162	2,877	197	102	149	596	777	698	953	1,273	1,930
Borrowing from financial institutions	319	404	593	12	12	−4	144	212	150	163	180	447
Funds from foreign affiliates	21	18	153	18	18	−9	14	−90	78	−11	90	84
Other increases in foreign liabilities	761	1,390	1,390	4	82	138	318	389	190	470	849	1,033
Issues of equity securities	304	394	418	65	10	18	51	149	131	248	175	200
Other foreign sources	141	86	114	8	*	8	70	117	60	64	−21	47
Canada, total	320	332	423	15	70	51	84	100	119	221	162	253
Borrowing from financial institutions	60	40	61	*	*	------	50	50	16	10	−10	45
Funds from foreign affiliates	−30	−18	−14	−5	------	−8	−5	−30	8	−20	12	−14
Other increases in foreign liabilities	96	236	235	−35	75	47	−10	36	29	140	125	100
Issues of equity securities	136	66	71	56	5	7	25	36	60	56	26	14
Other foreign sources	60	10	70	*	−10	5	24	10	17	45	10	48
Latin America, total[1]	225	146	490	31	16	33	44	−44	32	150	175	420
Borrowing from financial institutions	29	39	102	1	3	*	12	2	2	10	15	105
Funds from foreign affiliates	18	−74	4	18	2	−1	5	−80	30	−8	3	−25
Other increases in foreign liabilities	65	126	390	5	−5	28	18	−6	−23	72	137	295
Issues of equity securities	80	49	74	7	5	3	1	−1	1	72	45	70
Other foreign sources	3	26	10	*	10	3	8	41	22	−5	−25	−15
Europe, total	608	1,111	1,067	*	−1	*	198	431	305	410	681	862
Borrowing from financial institutions	133	174	250	1	−1	−1	27	60	65	105	115	205
Funds from foreign affiliates	42	100	105	------	------	------	24	40	75	18	60	90
Other increases in foreign liabilities	200	673	621	−1	*	1	130	220	76	180	452	445
Issues of equity securities	101	140	170	------	*	------	5	65	60	96	76	110
Other foreign sources	33	26	22	*	------	------	22	36	40	11	−11	12
Other areas, total	393	503	597	61	19	45	188	396	142	152	255	390
Borrowing from financial institutions	97	170	171	10	10	−3	55	100	77	33	60	97
Funds from foreign affiliates	*	11	−2	6	10	------	−10	−30	−35	5	25	33
Other increases in foreign liabilities	212	207	343	35	−8	40	90	140	100	87	135	133
Issues of equity securities	48	80	103	3	------	5	20	50	22	25	30	75
Other foreign sources	35	36	−18	8	*	------	25	30	−20	3	5	2

* Less than $500,000.
1. Includes "other Western Hemisphere."

Table 3.—Sales by Direct Foreign Investments, Principal Commodities by Area, 1957, 1959, and 1961–64

(Millions of dollars)

Areas and year	Manufacturing total	Food products	Paper and allied products	Chemicals	Rubber products	Primary and fabricated metals	Machinery, excluding electrical	Electrical machinery	Transportation equipment	Other products
All areas, total:										
1957	18,331	2,467	881	2,411	863	1,548	1,903	2,047	4,228	1,832
1959 r	20,634	2,810	930	2,960	1,010	1,600	2,290	1,984	5,140	2,180
1961 r	25,111	3,246	1,000	3,830	1,105	1,875	2,687	2,234	6,000	2,715
1962 r	27,023	3,410	1,180	4,400	1,332	2,053	3,258	2,571	6,780	2,938
1963 r	31,709	3,712	1,209	5,152	1,300	2,373	3,727	2,801	8,070	3,278
1964	37,270	3,960	1,510	5,945	1,005	2,840	4,650	3,340	9,480	3,800
Canada:										
1957	7,897	828	709	807	272	927	695	1,080	1,488	842
1959	8,204	1,008	800	1,070	200	950	700	794	1,400	880
1961	8,420	1,095	870	1,315	286	940	700	764	1,450	960
1962	9,180	1,135	945	1,295	340	1,090	810	851	1,730	1,000
1963	10,103	1,183	1,009	1,427	336	1,108	910	891	2,110	1,075
1964	11,450	1,280	1,145	1,585	400	1,330	1,030	1,040	2,480	1,200
Latin America: 1										
1957	2,435	608	55	409	230	111	60	190	375	282
1959	2,830	740	60	590	250	100	80	190	470	340
1961	3,647	784	85	600	300	100	122	300	710	440
1962	4,067	850	100	880	307	103	144	340	790	478
1963	4,396	900	130	1,060	330	105	100	290	780	505
1964	5,100	950	145	1,250	335	270	230	380	900	540
Europe:										
1957	6,313	734	34	822	282	435	1,000	678	1,700	629
1959	7,680	700	60	1,040	290	470	1,210	770	2,360	740
1961	10,780	1,110	70	1,510	400	690	1,755	1,050	3,070	1,125
1962	12,020	1,185	80	1,700	400	714	2,000	1,220	3,280	1,220
1963	14,015	1,275	96	2,005	430	840	2,205	1,480	4,160	1,425
1964	16,600	1,460	130	2,200	640	1,030	2,800	1,700	4,700	1,810
Other Areas:										
1957	1,685	188	23	193	105	75	133	90	665	110
1959	1,910	260	30	240	200	70	150	110	720	140
1961	2,265	270	35	375	210	85	200	120	715	280
1962	2,640	240	55	405	230	85	315	140	950	220
1963	3,195	276	65	600	205	140	380	160	1,090	270
1964	4,220	300	90	800	310	210	600	200	1,400	380

r Revised. 1 Includes "other Western Hemisphere."

these are the industries for which the largest increases in investment are projected.

There are a number of instances of spectacular growth in sales since 1957—machinery and transportation equipment in Europe, chemicals in "other" areas (largely in developed countries), primary and fabricated metals in Europe and in "other" areas (see table 3). Growth has generally been slower in Canada, mainly because by 1957 there was already a much larger production base in that country than in other areas.

Destination of sales

Over 80 percent of the sales of foreign manufacturing affiliates are customarily made within the countries in which the plants are located. In 1964, as table 5 shows, $1.6 billion out of total sales of $37.3 billion were exported to the United States. The largest part of this, $1.2 billion, came from Canada and consisted primarily of products of natural resource industries. Imports from Europe have been rising gradually but amounted to only $0.2 billion in 1964, and imports from Latin America, consisting largely of food products, were $145 million.

A considerable part of the output of the affiliates, $5.0 billion in 1964, enters international trade among foreign countries. Last year, about $3.6 billion of these export sales originated in European plants and represented sales among European countries as well as sales to other foreign areas. The transportation equipment, chemicals, and nonelectrical machinery industries in Europe exported relatively high proportions of their total sales.

The main exports of the Canadian affiliates are primary and fabricated metals and wood and paper products, while for Latin America the principal export products are foods and chemicals.

Comparison with U.S. exports

Table 6 compares the recent movement in exports of a large cross-section of U.S. manufactures with sales of similar products by foreign affiliates. The growth of these selected exports in 1964 (17 percent) was nearly as rapid as the expansion of foreign sales (18 percent). The more usual pattern has been a much faster growth in sales by the foreign affiliates. Last year, exports from the United States were supported by relatively high growth rates and pressures on capacity in most developed countries that are important markets for U.S. goods. However, it seems likely that in the current year, export sales, though rising, will lag behind the gains in sales by foreign plants. Exports generally are not benefiting from quite as rapid a growth in foreign demand, and foreign affiliates are greatly increasing their capacity to supply these markets.

U.S. exports of these selected manufactures to Canada and Europe were especially strong in 1964, outstripping the rate of increase in sales of Canadian and European affiliates. The magnitudes of exports and local manufactures are quite different, however, so that the absolute increases in local sales in these countries were much larger than the increase in U.S. exports to them. In Europe, for instance, local sales of nonelectrical machinery rose by $625 million in 1964; U.S. exports rose somewhat faster relatively, but the increase was only $170 million.

Chart 11 compares export sales with sales of foreign affiliates since 1957 for various groups of manufactures. The relatively sharp upward turn in exports of most commodities in 1964 stands

Table 4.—Sales by Direct Foreign Manufacturing Affiliates, 1957, 1959, and 1961–64

(Millions of dollars)

Area and country	1957	1959 r	1961 r	1962 r	1963 r	1964
All areas, total	18,331	20,634	25,111	27,023	31,709	37,270
Canada	7,897	8,304	8,420	9,180	10,103	11,450
Latin America, total 1	2,435	2,830	3,647	4,067	4,396	5,100
Argentina	285	420	572	687	671	1,160
Brazil	457	764	950	1,105	1,224	1,180
Mexico	843	751	850	1,035	1,175	1,590
Venezuela	269	364	376	390	440	510
Other countries	458	525	600	650	675	700
Europe, total	6,313	7,680	10,780	12,020	14,015	16,600
Belgium, Netherlands and Luxembourg	416	401	760	875	980	1,290
France	708	789	1,265	1,570	1,920	2,180
Germany	1,110	1,572	2,284	2,600	3,120	3,660
Italy	270	244	523	675	858	1,140
United Kingdom	3,303	4,068	6,070	5,260	5,962	6,910
Other countries	465	574	905	1,090	1,165	1,320
Other areas, total	1,685	1,910	2,265	2,640	3,195	4,220
Australia	767	932	1,000	1,260	1,635	2,100
Japan	217	240	280	430	515	710
Philippine Republic	118	141	160	155	178	210
Republic of South Africa	300	292	335	355	400	640
Other countries	283	304	330	320	416	500

r Revised. 1 Includes "other Western Hemisphere."

out, as well as the more rapid growth in the aggregate in foreign sales over a longer period. Nonelectrical machinery is the only industry for which exports were still slightly larger than sales of foreign affiliates, but this results primarily from large exports to less developed countries.

Sales of mining affiliates

Last year, the demand for metals and minerals rose strongly, and sales of the foreign mining affiliates of U.S. companies expanded accordingly. The rise for the year was nearly $0.6 billion, or 23 percent. Most of the gains were in Canada and Latin America, where the bulk of the U.S. investment in this industry has been concentrated; there were smaller gains in Africa and Asia.

Part of the increased sales was used in the countries where production took place, but most of the sales rise went to the United States and to other industrialized countries. It may be noted that most of the export sales of Canadian affiliates have been to the United States, but mining affiliates in other areas customarily sell a larger part of their output to industrialized countries other than the United States. Demand for metals and minerals in most developed countries is rising this year, and prices are increasing, so that sales of these affiliates will probably show another major gain in 1965.

Statistical Note

A brief description of sources and methods used in compiling these statistics is given in the *Survey of Current Business* for October 1964, pages 10 and 11. The following tables give the

(*Continued on page 24*)

Exploration and Development Expenditures of Petroleum and Mining Affiliates Charged Against Income, by Area, 1962–64

(Millions of dollars)

Industry and year	All areas, total	Canada	Latin America	Europe	Other areas
Total:					
1962	411	157	93	25	141
1963	456	145	100	29	182
1964	502	160	79	49	214
Petroleum:					
1962	371	127	87	20	137
1963	434	123	94	28	179
1964	467	136	73	47	211
Mining:					
1962	40	30	6	(*)	4
1963	32	22	6	1	3
1964	35	25	6	1	3

*Less than $500,000.

Table 5.—Sales of Foreign Manufacturing Affiliates; Area and Commodity by Destination, 1962–64

(Millions of dollars)

Area and commodity	Total sales 1962r	Total sales 1963r	Total sales 1964	Local sales 1962	Local sales 1963	Local sales 1964	Exported to United States 1962	Exported to United States 1963	Exported to United States 1964	Exported to Other countries 1962	Exported to Other countries 1963	Exported to Other countries 1964
All areas, total	27,923	31,759	37,370	23,089	25,990	30,585	1,098	1,126	1,636	3,825	4,643	5,849
Food products	3,410	3,712	3,900	2,931	3,122	3,300	123	124	176	356	466	500
Paper and allied products	1,180	1,290	1,510	600	674	790	425	470	565	165	155	155
Chemicals	4,409	5,153	5,945	3,609	4,392	5,025	120	147	210	471	615	710
Rubber products	1,332	1,400	1,005	1,239	1,203	1,476	10	8	5	83	89	125
Primary and fabricated metals	2,063	2,372	2,840	1,565	1,789	2,160	107	159	220	351	425	470
Machinery, excluding electrical	3,300	3,727	4,650	2,650	2,870	3,600	60	100	132	605	740	840
Electrical machinery	2,671	2,801	3,340	2,313	2,490	2,951	18	26	39	340	279	350
Transportation equipment	6,050	8,070	9,450	5,718	6,833	7,966	90	78	145	672	1,160	1,350
Other products	2,936	3,275	3,820	2,289	2,616	3,255	101	163	145	468	476	510
Canada, total	9,196	10,389	11,466	7,476	8,350	9,347	629	644	1,327	889	949	576
Food products	1,138	1,182	1,259	1,068	1,100	1,150	30	21	30	50	50	100
Paper and allied products	946	1,009	1,145	360	404	466	425	470	650	148	139	130
Chemicals	1,296	1,427	1,565	1,150	1,267	1,375	63	69	120	62	91	90
Rubber products	340	355	400	330	345	394	5	8	4	5	2	3
Primary and fabricated metals	1,090	1,199	1,320	747	810	850	102	148	310	241	240	270
Machinery, excluding electrical	810	910	1,030	697	795	883	51	56	70	62	70	75
Electrical machinery	651	891	1,060	621	841	908	8	15	33	22	35	39
Transportation equipment	1,730	2,110	2,420	1,030	1,989	2,200	46	48	190	55	73	120
Other products	1,000	1,075	1,200	791	864	1,040	141	158	110	68	53	50
Latin America, total[1]	4,467	4,296	5,164	3,661	3,902	4,567	73	84	145	333	414	382
Food products	850	900	910	445	633	602	52	53	105	323	305	240
Paper and allied products	100	130	145	90	120	130	(*)	(*)	5	10	10	10
Chemicals	880	1,000	1,245	817	965	1,160	15	21	25	47	63	75
Rubber products	302	319	325	297	310	333	-----	-----	-----	5	(*)	2
Primary and fabricated metals	103	195	270	153	174	260	-----	1	-----	10	20	30
Machinery, excluding electrical	144	160	230	138	152	215	(*)	4	1	6	10	14
Electrical machinery	300	290	380	350	270	385	(*)	1	1	10	8	14
Transportation equipment	790	790	960	789	758	954	(*)	(*)	3	2	2	3
Other products	478	505	560	463	500	535	5	(*)	5	10	5	20
Europe, total	12,939	14,935	16,604	9,374	10,763	12,711	135	121	205	2,511	3,112	3,481
Food products	1,185	1,205	1,450	1,130	1,180	1,335	5	10	15	50	75	100
Paper and allied products	80	95	130	70	90	120	-----	-----	(*)	10	5	10
Chemicals	1,700	2,005	2,250	1,305	1,600	1,700	15	10	50	350	455	600
Rubber products	460	430	540	385	345	424	5	(*)	1	70	85	116
Primary and fabricated metals	715	840	1,030	610	680	840	5	10	10	100	150	180
Machinery, excluding electrical	2,090	2,204	2,890	1,514	1,570	2,090	45	40	80	531	649	740
Electrical machinery	1,220	1,460	1,700	1,010	1,243	1,400	10	10	15	200	227	285
Transportation equipment	3,280	4,150	4,700	2,435	3,067	3,427	45	30	42	800	1,008	1,231
Other products	1,230	1,425	1,810	825	1,017	1,375	5	5	15	400	403	420
Other areas, total	2,649	3,195	4,220	2,495	2,960	3,540	52	81	55	52	148	244
Food products	240	275	300	181	205	215	36	40	25	23	30	60
Paper and allied products	55	65	90	50	60	85	-----	-----	(*)	5	5	5
Chemicals	495	600	850	447	530	690	6	20	16	12	41	45
Rubber products	230	225	310	227	203	294	-----	-----	-----	3	2	5
Primary and fabricated metals	85	140	210	75	125	200	-----	-----	-----	10	15	10
Machinery, excluding electrical	315	350	500	309	349	479	-----	1	1	6	11	20
Electrical machinery	140	160	200	132	142	185	(*)	(*)	(*)	8	8	12
Transportation equipment	860	1,050	1,400	805	1,029	1,374	-----	(*)	(*)	15	21	20
Other products	230	270	310	210	235	310	15	20	15	10	15	20

r Revised. 1 Includes "other Western Hemisphere." *Less than $500,000.

Table 6.—Exports from the United States and Sales by Direct Foreign Manufacturing Affiliates, of Selected Manufactures, by Area, 1963 and 1964

(Millions of dollars)

Commodity	All areas, total 1963r	All areas, total 1964	Canada 1963	Canada 1964	Latin America[1] 1963	Latin America[1] 1964	Europe 1963	Europe 1964	Other Areas 1963	Other Areas 1964
Selected manufactures:										
Foreign sales	22,409	26,530	6,798	7,640	2,796	3,329	10,485	12,310	2,510	3,254
U.S. exports	9,449	10,024	2,181	2,631	2,073	2,410	2,729	3,177	2,636	2,916
Paper and allied products:										
Foreign sales	1,290	1,510	1,009	1,145	120	145	95	130	65	90
U.S. exports	600	590	73	92	105	124	193	231	134	159
Chemicals:										
Foreign sales	5,152	5,945	1,427	1,565	1,000	1,250	3,065	2,250	660	880
U.S. exports	1,979	2,245	301	324	462	645	698	840	519	616
Rubber products:										
Foreign sales	1,360	1,605	355	400	310	355	430	540	265	310
U.S. exports	318	362	63	60	59	59	115	133	61	100
Machinery, excluding electrical:										
Foreign sales	3,727	4,650	910	1,030	166	230	2,365	2,890	290	500
U.S. exports	3,902	4,704	913	1,140	774	869	1,204	1,372	1,105	1,323
Electrical machinery:										
Foreign sales	2,801	3,340	891	1,060	280	380	1,460	1,700	160	200
U.S. exports	1,118	1,284	262	291	236	261	381	398	275	334
Transportation equipment:										
Foreign sales	8,070	9,450	2,110	2,420	760	960	4,150	4,700	1,050	1,400
U.S. exports[2]	1,536	1,733	510	614	447	641	170	194	409	384

r Revised. 1. Includes "other Western Hemisphere." 2. Excludes civilian aircraft.

Financing and Sales of Foreign Affiliates of U.S. Firms

(Continued from page 19)

Table 7.—Sales of Mining Affiliates Abroad, by Area and Destination, 1957, 1963, and 1964

(Millions of dollars)

Area	Total sales			Local sales			Exported to United States			Exported to other countries		
	1957	1963	1964	1957	1963	1964	1957	1963	1964	1957	1963	1964
All areas, total	2,132	2,492	2,963	335	432	623	806	962	1,084	893	1,098	1,254
Canada	740	1,080	1,259	124	235	335	400	405	560	216	309	355
Latin America, total	926	963	1,200	104	122	206	408	452	450	413	389	544
Mexico, Central America, and West Indies [1]	222	223	239	67	80	100	112	123	74	44	20	65
South America	486	620	821	37	41	105	228	227	256	321	352	460
Other Western Hemisphere	111	170	140	(*)	1	1	63	102	120	48	17	19
Europe	70	60	60	18	10	10	4	2	(*)	48	38	49
Africa	338	285	320	49	4	3	77	37	66	119	244	262
Asia and Oceania	66	104	133	31	61	69	14	6	9	20	37	65

NOTE.—Detail may not add to totals because of rounding. * Less than $500,000. [1] West Indies excludes Cuba in 1963 and 1964.

latest data showing the coverages of the samples used and a reconciliation with data collected for use in the balance of payments accounts.

Table I updates figures on the exploration and development expenditures of foreign affiliates charged against their income accounts. These figures can be used in conjunction with the data on plant and equipment expenditures given in this article and in the SURVEY for September 1965 to provide a more complete picture of foreign investment activity by U.S. firms.

Sales of Foreign Manufacturing Affiliates, by Area, 1964

(Millions of dollars)

Area	Reported data	Estimated total	Percent reported
All areas	29,811	37,276	79
Canada	8,608	11,450	75
Latin America	3,679	5,100	70
Europe	13,807	16,500	84
Other areas	3,260	4,220	77

Plant and Equipment Expenditures of Foreign Affiliates, by Industry, 1964

(Millions of dollars)

Industry	Reported data	Estimated total	Percent reported
All industries	4,970	6,103	81
Mining and smelting	341	420	81
Petroleum	1,875	2,065	91
Manufacturing	2,311	2,983	77
Trade	219	328	66
Other industries	224	321	70

Reconciliation of Data on Capital Flows and Earnings by Industry, 1964

(Millions of dollars)

Data on capital flows and earnings	Total, specified industries	Mining and smelting	Petroleum	Manufacturing
Net capital outflow appearing in balance of payments accounts	1,624	69	739	796
Less:				
Purchases of existing enterprises and minority interests	349	2	11	336
Retained branch profits	107	100	1	6
Plus:				
U.S. financing, other than parent	48	−47	−2	97
Other adjustments and residual [1]	40	19	10	11
Equals:				
Net funds from U.S. (table I)	1,468	−41	735	762
Undistributed earnings of subsidiaries consistent with balance of payments accounting	967	102	−49	914
Plus:				
Undistributed earnings of minority interests	274	131	3	140
Retained branch profits	107	100	1	6
Other adjustments and residual	125	−48	62	111
Equals:				
Retained earnings as derived from table I	1,469	285	7	1,171

[1] Includes sales to foreigners of equity interests in existing affiliates.

Price Changes

(Continued from page 6)

Uptrend in CPI continues

From the first to the second quarter of 1965, the Consumer Price Index rose about ¾ of 1 percent after seasonal adjustment, about double the average quarterly rise of the preceding year. Although the average level of prices was greater in the third quarter than in the second, the advance was very small, and indeed since late spring, the overall level of consumer prices has been quite steady.

The unusual spurt in prices this spring reflected mainly a sharp advance in food prices, particularly for meats, fruits, and vegetables; prices of these commodities have eased somewhat since early summer.

Prices of nonfood commodities, which had been fairly stable through most of 1964, rose an average of one-half of 1 percent in each of the first two quarters of this year but fell back somewhat in the third quarter. In household durables and new cars, part of the summer decline resulted from the excise tax reduction. Since the tax cuts, seasonally adjusted prices of household durable goods have edged down further, while new car prices (through September, just before the introduction of the 1966 models) have shown no significant change, after allowance for the usual seasonal influences. Used car prices, which rose contraseasonally at the time of the auto strikes early last winter, have weakened steadily this year and are now below the level of a year earlier.

Prices of consumer services have continued to increase about as much as in recent years. Prices of transportation, medical, and "other" services have risen a little more than the average for all services, and household services (excluding rent) somewhat less.

Recent Financial Developments

(Continued from page 18)

such items in table 11 of the August SURVEY which accrue to the nonfarm, nonfinancial group of corporations; the items classified under "increase in physical assets" represent the portion of those of "gross private domestic investment" (tables I and II of the August 1965 SURVEY) which was purchased by this group of corporations.

OBE is presently preparing a broad industrial breakdown of the sources and uses of funds of nonfarm, nonfinancial corporations.

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